

SRC Key Initiatives

Getting Washington Back to Work

Final 2004



Tax Incentives

“These incentives create jobs and increase salaries in our state, ultimately increasing our state government’s revenues and allowing us to increase investment in other areas like education and social services.”

Getting Washingtonians back to work continues to be a top priority for Senate Republicans — more can be done to ensure that every person who wants a job, can find one.

Senate Republicans chose small, targeted investments intended to bring maximum results in saving and creating jobs. The Senate Republicans lead the way in helping to attract and retain family-wage jobs throughout *all* of Washington.

➤ The jobs protected and created by the high-tech tax incentives are vital to the state’s economy. For the first time in our state’s history, high-tech employment is virtually the same size as aerospace employment.

➤ From 1995 to 2001, the Washington high-tech industry has increased employment by more than 70 percent, outpacing the national average of 40 percent.

➤ Each high-tech or biotech job creates as many as 3.4 additional indirect jobs, adding significant additional employment to Washington’s economy.

➤ These are family-wage jobs. Washington leads the nation in general high-tech wages with an average of \$68,734 and payroll of more than \$15 billion.

➤ At least 35 other states have high-tech tax incentives.

➤ Senate Republicans also pushed for temporary tax incentives to help save jobs in the aluminum industry. As many as 450 family-wage jobs were saved in the Ferndale area of Whatcom County, as well as a number of jobs in Wenatchee.

Extending tax incentive provisions for rural counties (SSB 6240)

The B&O tax credit for businesses that provide technology “help desk” services and the B&O tax credit for businesses that develop or manufacture software in rural counties are both extended to 2011. Also, the rural county sales and use tax deferral program for manufacturing, computer programming or R&D businesses is extended to July, 2010. Recipients of the tax deferral must provide information to DOR concerning the amount of tax credit taken.

Testified For: Governor’s Office; Public Ports Assn.; WA Economic Development Assn. and WA Software Alliance

Testified Against: none

Status: Signed into law

Providing tax relief for aluminum smelters (2SSB 6304)

This bill temporarily reduces the B&O tax rate while providing some sales and use tax and natural gas tax exemptions for aluminum companies. These tax incentives expire in 2006.

Testified For: Alcoa; International Assn. of Machinist and Aerospace Workers

Testified Against: none

Status: Signed into law

Exempting fuel cells from sales and use taxes (SB 6490)

Machinery and equipment used directly to generate at least 200 watts of electricity using fuel cells are exempt from the use tax.

Testified For: DOR; GA

Testified Against: none

Status: Signed into law

Extension of high-tech R&D tax incentives (ESHB 2546) (Senate measure: SB 6239)

This bill extends the B&O tax credit and the sales and use tax exemptions for companies engaging in high-tech R&D until Jan. 1, 2015. The bill also allows Washington's two research universities (UW and WSU) to use the sales and use tax exemptions for R&D facilities and equipment.

This bill includes two separate accountability measures:

- Sales and use tax deferral includes accountability measures for actual job creation, including wage levels.
- The B&O R&D tax credit includes accountability measures for growth in R&D investments and the number of new products created.

Testified For: Gov's Office; DOR; Columbia River Economic Development Council; Amgen Inc.; WA Software Alliance; Vizx Labs; WA State Biotechnology Assn.; Biomedical Research Institute

Testified Against: Economic Opportunity Institute; Labor Council; SEIU; WA Assn. of Churches; Children's Alliance; Poverty Action Network; National Organization of Women

Status:

Status: Signed into law

Exempting physical fitness centers from sales and use tax (SSB 5423)

Physical fitness services are removed from the definition of "retail services" and no longer subject to sales and use taxes. However, they are still subject to B&O taxes.

Testified For: WA Health and Fitness Assn.

Testified Against: None

Status: Died in Senate Rules

Providing tax incentives for solar energy systems (SSB 6132)

This bill cuts the manufacturing B&O tax rate for businesses manufacturing solar modules. Additionally, if a manufacturer locates in a county with an unemployment rate greater than 12 percent on July 1, 2004, that business is exempt from the new lower B&O tax rate. These two provisions expire on June 30, 2013.

Testified For: Puget Sound Solar; Republic PDA; Ferry County PUD; NW Energy Coalition

Testified Against: none

Status: Passed Senate 45-0, died in House Technology, Telecommunications and Energy Committee.

Increasing churches' property tax exemption limitations (SB 6516)

The amount of church-owned land eligible for property tax exemption is raised from five to 20 acres. Also, the exemption for church camps is raised from 200 to 400 acres.

Testified For: WA State Catholic Conference; WERG

Testified Against: none

Status: Passed Senate 40-9, died in House Finance Committee

Machinery/equipment sales tax exemption for light/power businesses (SB 6660)

This bill allows light and power businesses to qualify for the manufacturing machinery and equipment sales and use tax exemption.

Testified For: National Energy; Clark Co. PUD

Testified Against: NW Energy Coalition

Status: Died in Senate Rules

Fruit and vegetable processors (ESSB 6665)

This bill provides a B&O tax exemption for fresh fruit and vegetable processing. It also provides a sales and use tax exemption on the construction of – and machinery and equipment used in – fresh fruit and vegetable processing facilities and cold storage warehouses.

Testified For: NW Food Processors Assn.; Symons Frozen Foods; National Frozen Foods; Ocean Spray Cranberry, Inc.

Testified Against: none

Status: Passed Senate 44-3, died in House Finance Committee

Postage B&O and sales/use tax exemptions for printers and mailing bureaus (SSB 6696)

B&O, retail sales, and use tax do not apply to charges made for postage, if the postage is purchased from the United States Postal Service and separately accounted for.

Testified For: IBA; NFIB; Pacific Printing and Imaging Assn.

Testified Against: DOR (concerns)

Status: Passed Senate 46-0, died in House Finance Committee

B&O rate for temporary staffing services (SSB 6424)

Washington State has over 300 temporary staffing companies, employing 40,000 people per day. This measure reduces the B&O rate for staffing services from 1.5 percent to 0.484 percent, except retailing services are subject to the 0.471 percent retailing rate.

Testimony For: Temporary Staffing Assn.; WA Assn. of Computing Services; ArtSource; Select Staff (Tacoma business)

Testimony Against: none

Status: Passed Senate 43-3, died in House Rules

OUTSOURCING JOBS

The issues related to this topic include government contracting with private companies that are exporting jobs overseas, **tax incentives that benefit private companies exporting jobs overseas** and full disclosure of the location of customer services provided by such companies.

These issues are being debated in Congress and most recently they have become a part of the debate between the presidential candidates.

Article I, Section 8 of the Constitution of the United States reserves to Congress the power to “regulate commerce with foreign nations.” The loss of jobs to foreign nations is not an unexpected outgrowth of the 1948 General Agreement on Tariffs and Trade (GATT) and more recently, the 1993 World Trade Agreement (WTO) and WTO’s Government Procurement Agreement (GPA).

What individual states can do is not clear under the GPA’s “national treatment” principle. Without this fair and uniform treatment requirement, it is thought states would have more latitude in establishing limits on their own procurement policies and procedures.

In addition, for Washington, the most trade-dependent state in the nation, there are also some very real economic risks to consider before undertaking any regulatory activity that could result in retaliation against Washington exports.

Currently, our trading partners account for a tiny proportion of state contracts. In contrast, Washington companies are major suppliers to foreign governments. Not counting Boeing and Microsoft, Washington companies exported more than \$60 million worth of products to foreign governments in 2002. Those exports are directly related to jobs for Washington residents.

The most talked about jobs going overseas are in the high-tech field. Proponents, like Hewlett-Packard, say this is related to higher performance in math and science by students in other counties, the nature of competitiveness when it comes to consumer prices and a cost-savings to taxpayers who are the ones who pay for government contracts with private companies. Opponents characterize sending jobs overseas as “corporate greed.”

However, it is interesting to note that the U.S. Bureau of Labor Statistics (BLS) projects strong IT employment growth in the United States. According to the BLS, over the next decade, job growth in occupations requiring IT skills will be more than three times the rate of job growth in the U.S. economy as a whole.

With Washington’s post-911 economic recovery still lagging behind the rest of the nation, it seems prudent to move cautiously on this matter.

Prohibiting work under state contracts from being performed outside the United States (HB 3187)

This bill prohibits work under certain state contracts from being performed outside the United States. This prohibition is applicable to state personal services, purchased services and civil service. This prohibition does not apply to goods procured under certain state contracts and to certain state contracts entered into prior to July 1, 2005.

Testified For: *WA State Federation of State Employees; WA Alliance of Technology Workers; Lutheran Public Policy Office; Communication Workers of America*

Testified Against: *AWB; Alliance One, Inc.*

Status: *Died in House Rules*

Boeing 7E7 Contract

In June 2003, The Boeing Co. accepted bids from Washington and as many as 20 other states seeking to convince the company to build a \$500 million plant to perform final assembly of the new 7E7 Dreamliner. According to consultants working with Washington to win the bid, we had only a 1-in-5 chance of winning. Under the state's existing tax and regulatory structure, consultants from Deloitte & Touche estimated Boeing's costs to build the 7E7 would be 25 percent higher in Washington than in business-friendly states such as Texas and Alabama that promised to aggressively pursue the 7E7.

Losing the Boeing 7E7 bid last year would have had a devastating effect on our state's economy—Boeing and its suppliers directly employ roughly 70,000 people and another 140,000 jobs are Boeing-related. We had to win the 7E7 to ensure Boeing's future in our state.

The fact that Governor Locke had to make so many concessions to win the 7E7 bid—above and beyond the \$3.2 billion in tax incentives approved by the Legislature — only underscores how far we have to go to make our state truly competitive once again—for all businesses.

Before Boeing moved its headquarters to Chicago, Alan Mulally outlined a list of priorities that would have helped not only Boeing—but all Washington businesses. When we failed to address those priorities, Boeing moved its headquarters out of our state.

Last session, they came back with another list of priorities— just to get Washington to a place where we could compete against other states for the 7E7 final assembly— and we didn't even get all of those done.

The Senate Republicans are committed to continuing our efforts to improve Washington's economic climate for ALL employers, to create jobs and to restore confidence in our state as a good place to do business.

Importance of Boeing to our Economy:

Boeing has been a critical part of our state's economy and community for almost 90 years. Its success in the global market has translated into economic success for the Puget Sound region— and beyond.

- Boeing and its suppliers directly employ approximately 70,000 Washingtonians in family-wage jobs.
- Another 140,000 jobs are Boeing-related, generating more than \$10 billion in income a year in Washington state.
- Aerospace and its related industries contributed an estimated \$700 million toward the state's general fund in 2002 and as much as \$1 billion just a few years ago.
- The 7E7, a new and efficient next-generation jetliner, will eventually replace the other planes being built here. If we hadn't won final assembly of the 7E7, we ran the risk of losing all future new-generation aircraft bids. If this had happened, we stood to lose:
 - Up to 48,000 Boeing jobs;
 - As many as 9,600 supplier and contractor jobs;
 - Anywhere from 32,000 to 77,000 jobs in retail, construction, finance and other related industries; and
 - As much as \$475 million per year in general state revenues.
 - The impact on our state, on our communities, on our economy and our bottom line would have been massive.

In December 2003, Boeing announced Washington was selected to perform final assembly of the Boeing 7E7.

2003 Legislative Action:

- The Legislature approved comprehensive unemployment insurance reforms that will benefit not only Boeing but the entire business community (SB 6097).
- The Legislature also approved \$3.2 billion in tax incentives, contingent on Boeing building the 7E7 in Washington (HB 2294).

The Rest of the Contract:

- The state will spend a minimum of \$6 million to design and build an Employment Resource Center dedicated exclusively to 7E7 work-force development.
- The state will hire a "work-force-development coordinator," in consultation with Boeing, who will develop a recruitment, screening and training program to help Boeing and its suppliers hire workers.

- The Department of Transportation and the city of Everett must make road improvements to support employment levels of 35,000 at the factory and up to 83,000 in the surrounding area through 2030, including extending the HOV lanes on Interstate 5 in Everett and widening Highway 527 to five lanes for 20 blocks.
- The Port of Everett must spend \$34 million to build a 27-acre facility at its south terminal capable of handling cargo transported by ship directly from Japan; such cargo now offloads in Seattle or Tacoma and then makes its way to Everett by barge.
- Snohomish County must improve the runways and facilities at Paine Field to support modified 747s that will transport 7E7 parts, plus build a road at least 30 feet wide between the cargo pad, Boeing's factory and its suppliers' facilities.
- The state will designate a "747 large cargo freighter coordinator" to help Boeing acquire and modify a small fleet of 747s to deliver 7E7 parts.

Many details of what the state offered Boeing to win the 7E7 were kept secret to avoid jeopardizing our deal. The state needed to make a business decision in a short amount of time in a highly-competitive environment. Losing Boeing was not an option. This is not an issue of "Boeing" over other businesses.

2004 Legislative Action:

The supplemental capital budget includes a \$6 million appropriation to purchase and install state-of-the-art equipment for a 40,000-square-foot Employment Resource Center dedicated exclusively to 7E7 work-force development, using funds available to the state in section 903(d) of the Social Security Act (Reed act).